Essentials of

Services Marketing

3rd Edition

1 Introduction to SERVICES MARKETING

WIRTZ LOVELOCK

Learning Objectives

1.1 Understand how services contribute to a country's economy.

1.2 Know the principal industries of the service sector.

1.3 Identify the powerful forces that are transforming service markets.

1.4 Understand how B2B services improve the productivity of individual firms and drive economic development.

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Learning Objectives

1.5 Define services using the non-ownership framework.

1.6 Identify the four broad “processing” categories of services.

1.7 Be familiar with the characteristics of services and the distinctive marketing challenges they pose.

1.8 Understand the components of the traditional marketing mix applied to services.

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Learning Objectives

1.9 Describe the components of the extended marketing mix for managing the customer interface.

1.10 Appreciate that marketing, operations, and human resource management functions need to be closely integrated in service businesses.

1.11 Understand the implications of the Service–Profit Chain for service management.

1.12 Know the framework for developing effective services marketing strategies.

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Introduction to Services Marketing

1.1

Understand how services contribute to a country's economy.

How services contribute to a country's economy

- Services dominate most economies and are growing rapidly:
  - Services account for almost two-thirds of GDP worldwide
  - Almost all economies have a substantial service sector
  - Most new employment is provided by services
  - Strongest growth area for marketing
- Understanding services offers you a personal competitive advantage

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How services contribute to a country's economy

- Contribution of Services Industries to Global GDP

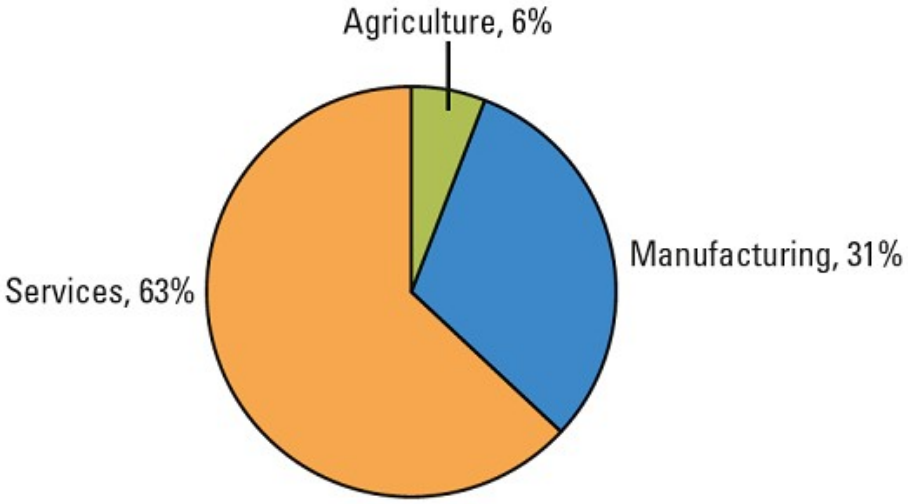

Figure 1.5 Contribution of services industries to GDP globally.

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Data from *The World Factbook 2015*, Central Intelligence Agency, www.cia.gov, accessed January 22, 2015.

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How services contribute to a country's economy

- Estimated Size of Service Sector in Selected C

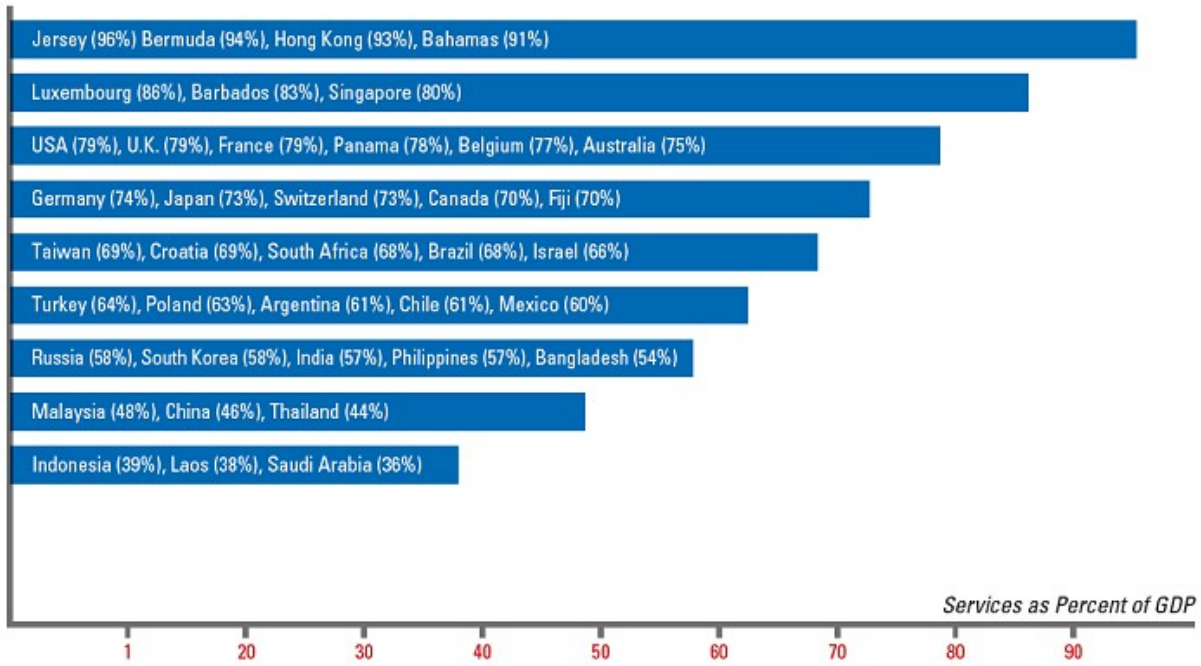
Jersey (96%) Bermuda (94%), Hong Kong (93%), Bahamas (91%)
Luxembourg (86%), Barbados (83%), Singapore (80%)
USA (79%), U.K. (79%), France (79%), Panama (78%), Belgium (77%), Australia (75%)
Germany (74%), Japan (73%), Switzerland (73%), Canada (70%), Fiji (70%)
Taiwan (69%), Croatia (69%), South Africa (68%), Brazil (68%), Israel (66%)
Turkey (64%), Poland (63%), Argentina (61%), Chile (61%), Mexico (60%)
Russia (58%), South Korea (58%), India (57%), Philippines (57%), Bangladesh (54%)
Malaysia (48%), China (46%), Thailand (44%)
Indonesia (39%), Laos (38%), Saudi Arabia (36%)
Services as Percent of GDP
1
20
30
40
50
60
70
80
90

Figure 1.6 Estimated size of the service sector in selected countries as a percentage of GDP.

SOURCE

Data from *The World Factbook 2015*, Central Intelligence Agency, www.cia.gov, accessed January 22, 2015.

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1.2

Know the principal industries of the service sector.

Principal industries of the service sector

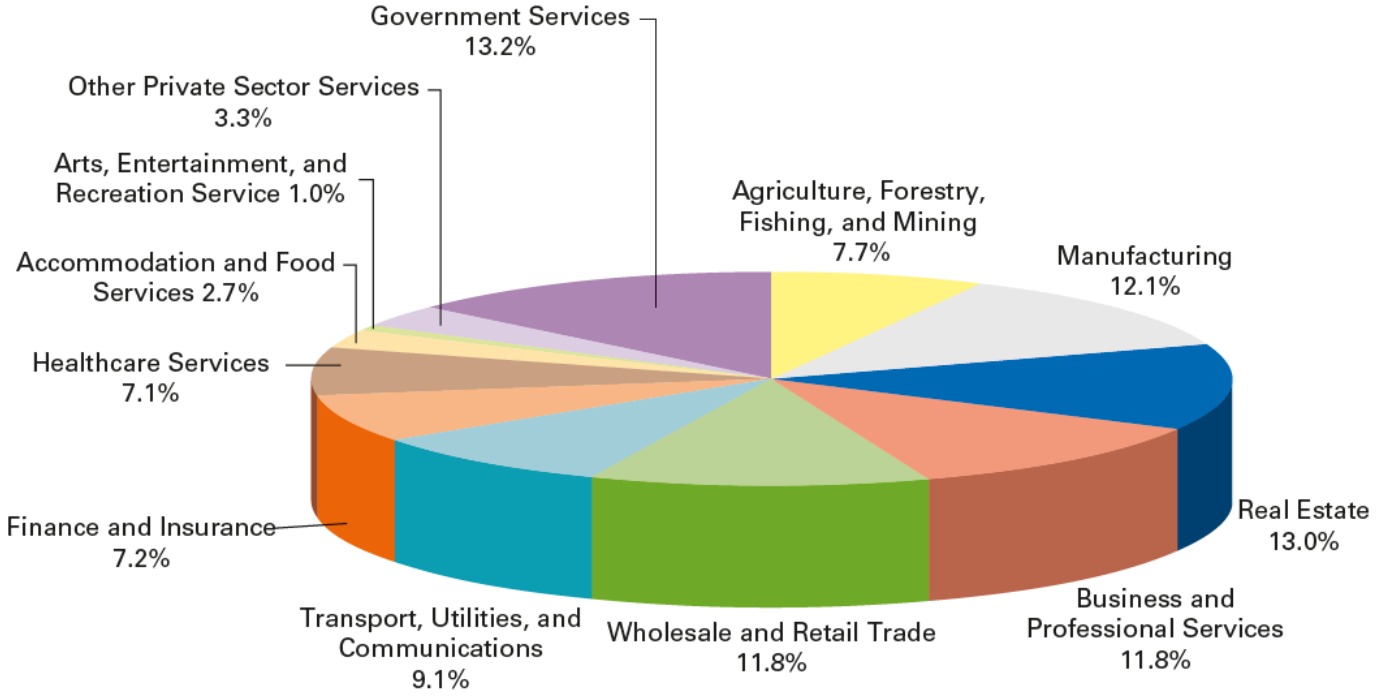

Figure 1.8 Value added by service industry categories to U.S. gross domestic product.

SOURCE

Data from U.S. Department of Commerce, Bureau of Economic Analysis, GDP by Industry Accounts for 2013.

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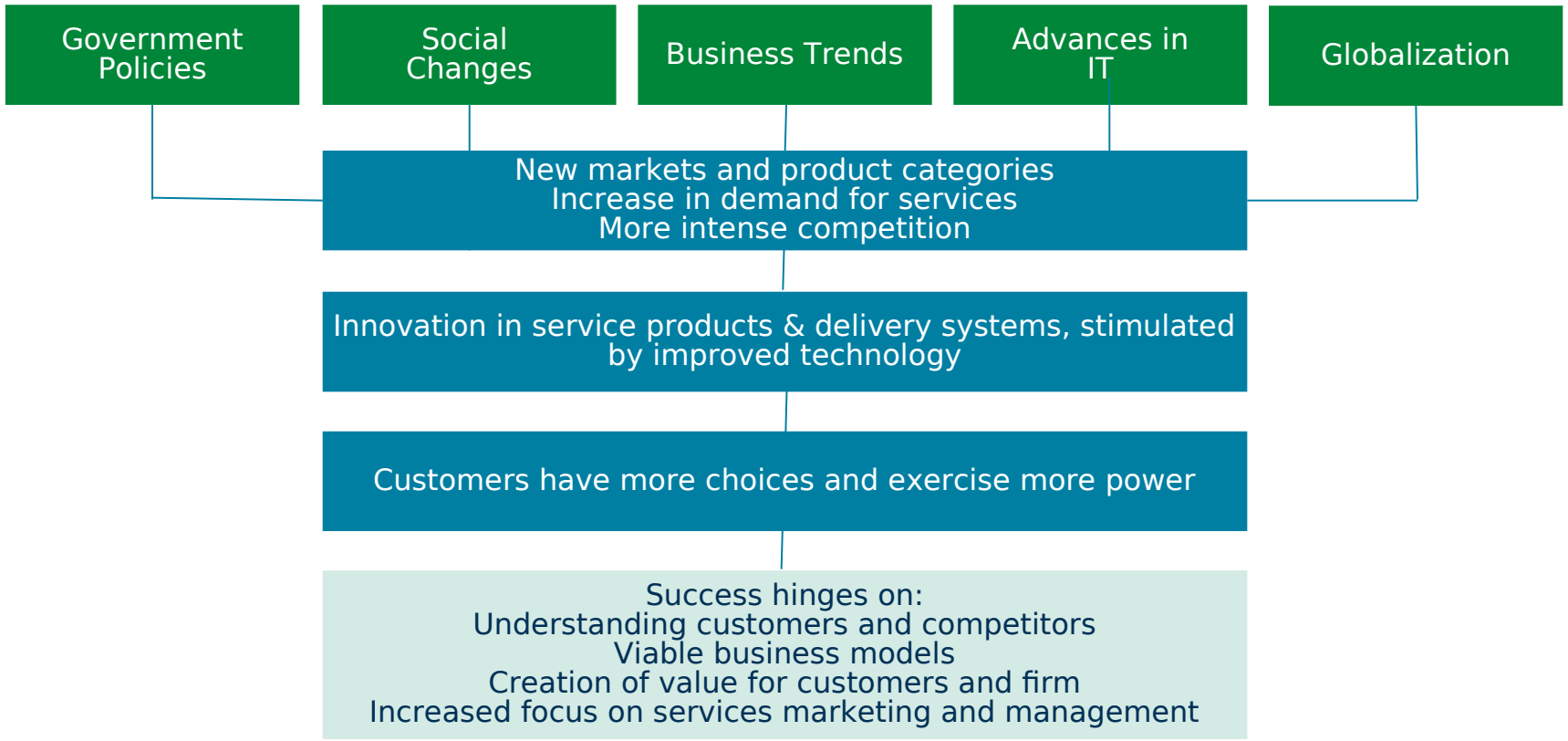
1.3

Identify the powerful forces that are transforming service markets.

Powerful forces that are transforming service markets

- Forces Transforming the Service Economy


Government Policies
Social Changes
Business Trends
Advances in IT
Globalization
New markets and product categories
Increase in demand for services
More intense competition
Innovation in service products & delivery systems, stimulated by improved technology
Customers have more choices and exercise more power
Success hinges on:
Understanding customers and competitors
Viable business models
Creation of value for customers and firm
Increased focus on services marketing and management

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Powerful forces that are transforming service markets

- Forces Transforming the Service Economy

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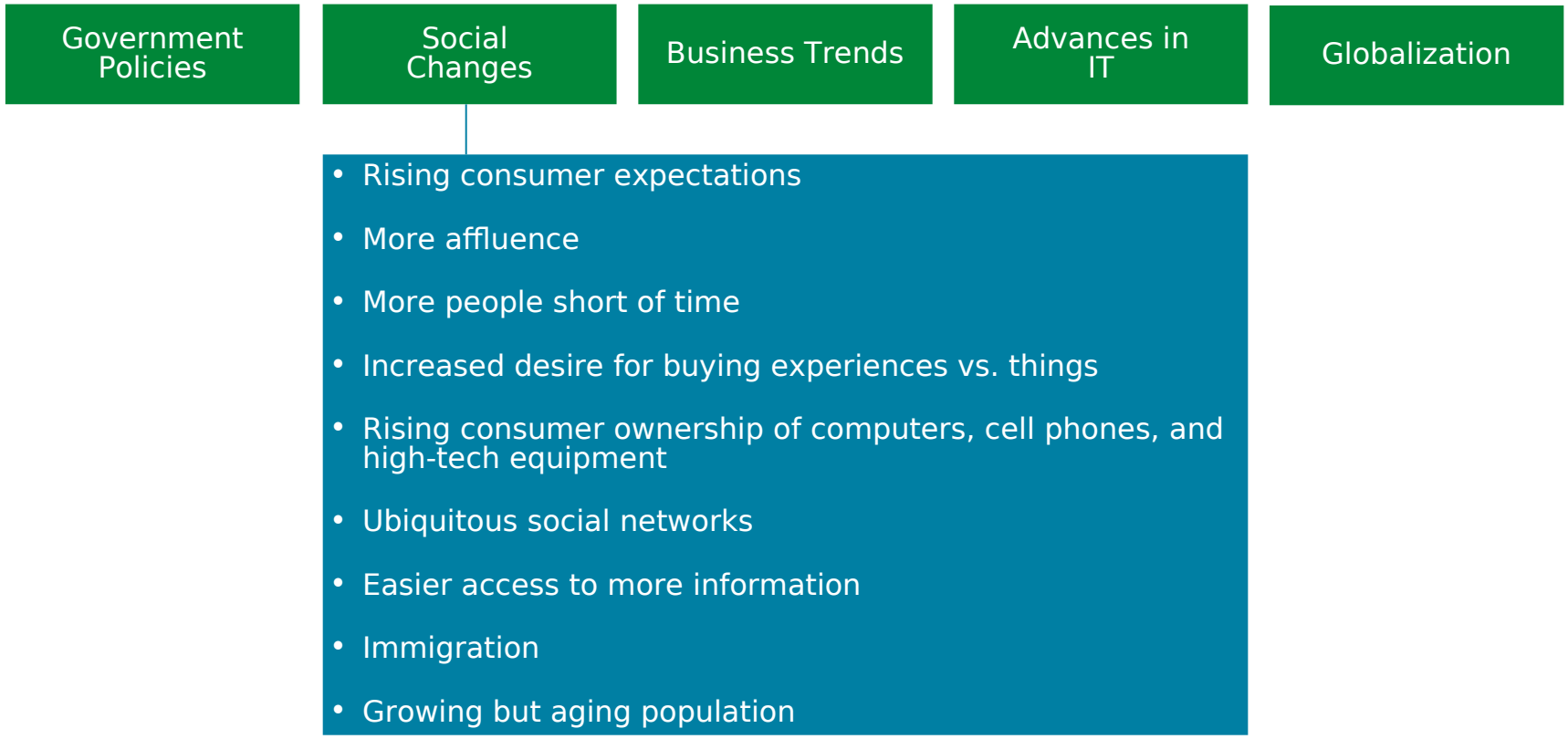
Powerful forces that are transforming service markets

- Forces Transforming the Service Economy


Government Policies
Social Changes
Business Trends
Advances in IT
Globalization
• Rising consumer expectations
• More affluence
• More people short of time
• Increased desire for buying experiences vs. things
• Rising consumer ownership of computers, cell phones, and high-tech equipment
• Ubiquitous social networks
• Easier access to more information
• Immigration
• Growing but aging population

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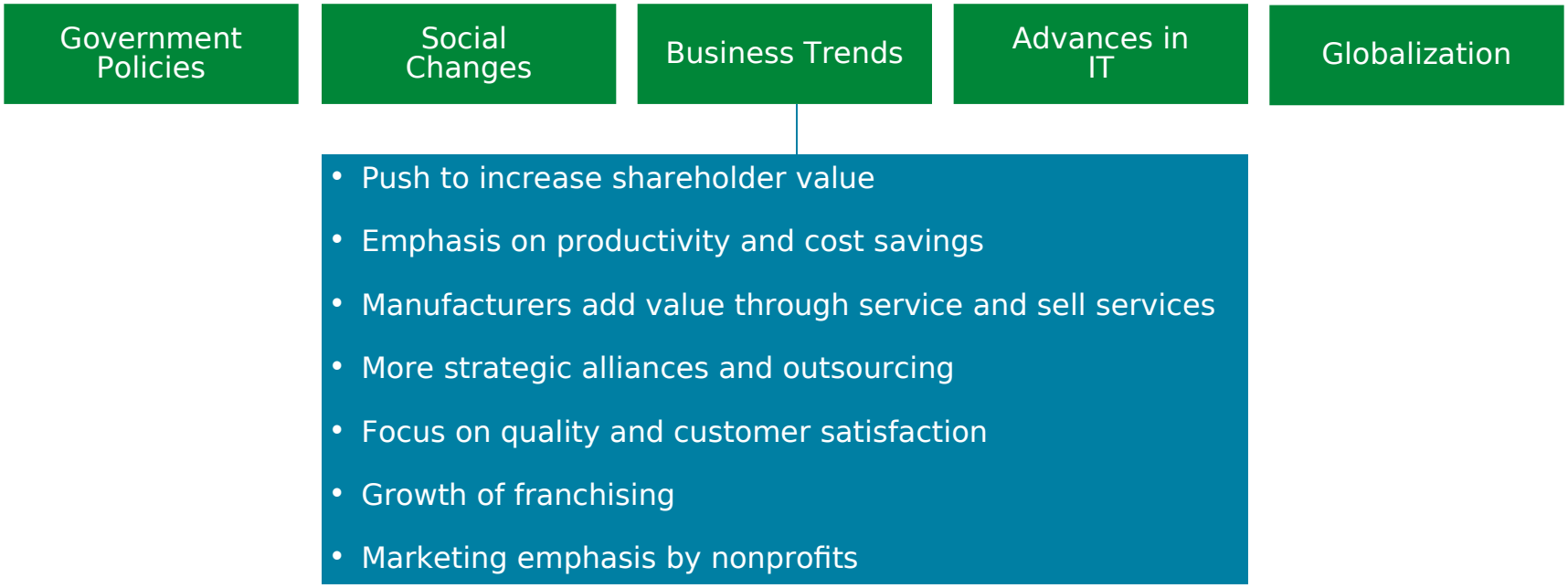
Powerful forces that are transforming service markets

- Forces Transforming the Service Economy


Government Policies
Social Changes
Business Trends
Advances in IT
Globalization
• Push to increase shareholder value
• Emphasis on productivity and cost savings
• Manufacturers add value through service and sell services
• More strategic alliances and outsourcing
• Focus on quality and customer satisfaction
• Growth of franchising
• Marketing emphasis by nonprofits

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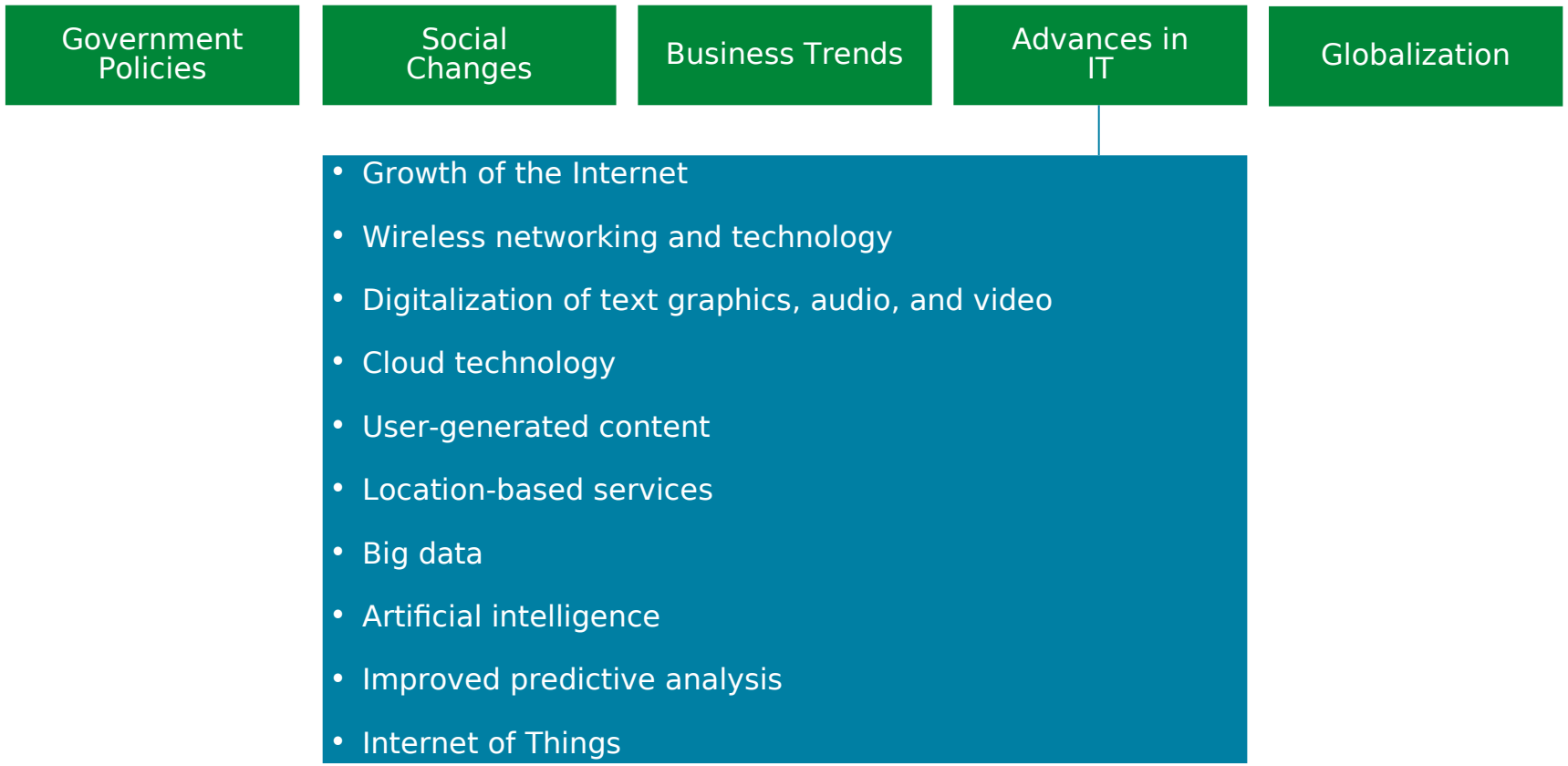
Powerful forces that are transforming service markets

- Forces Transforming the Service Economy



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Powerful forces that are transforming service markets

- Forces Transforming the Service Economy

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1.4

Understand how B2B services improve the productivity of individual firms and drive economic development.

How B2B drives economic development

- Many manufacturing firms outsource their non-core support activities to independent service providers
- This leads to an increased specialization with significant improvements in
and standards.

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1.5

Define services using the non-ownership framework.

What are services?

- Services involve a form of rental, offering benefits without transfer of ownership
  - Include rental of goods
  - Marketing tasks for services differ from those involved i
    transferring owr

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What are services?

Definition of Services

- Services
  - are economic activities offered by one party to another
  - most commonly employ time-based performances to bring about desired results

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What are services?

Definition of Services

- In exchange for their money, time, and effort, service customers
  - expect to obtain value from access to goods, labor, facilities, environments, professional skills, networks, and systems
  - normally do not take ownership of any of the physical elements involved

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1.6

Identify the four broad "processing" categories of services

Four broad categories of services

- Based on differences in nature of service act (tangible/intangible) and who or what is direct recipient of service (people/possessio
  four categories of service
  - People processing
  - Possession processing
  - Mental stimulus processing
  - Information processing

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Four broad categories of services

Nature of the Service Act	Who or What Is the Direct Recipient of the Service?	
	People	**Possessions**
Tangible Actions	**People processing** (services directed at people's bodies): • Hairstylist • Passenger Transportation • Healthcare	**Possession processing** (services directed at physical possessions): • Freight Transportation • Laundry and Dry Cleaning • Repair and Maintenance
Intangible Actions	**Mental stimulus processing** (services directed at people's minds): • Education • Advertising PR • Psychotherapy	**Information processing** (services directed at intangible assets): • Accounting • Banking • Legal Services

Figure 1.14 Four broad categories of services.

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Four broad categories of services

People Processing

- Customers must:
  - physically enter the service factory
  - co-operate actively with the service operation
- Managers should think about process and output from customer's perspective
  - to identify benefits created and non-financial costs:

Time, mental, physical effort

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Four broad categories of services

Possession Processing

- Customers are less involved compared to people processing services.
- Involvement may be limited to just dropping off the possession.
- Production and consumption are separable.

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Four broad categories of services

Mental Stimulus Processing

- Ethical standards required when customers who depend on such services can potentially be manipulated by suppliers.
- Physical presence of recipients not required.
- Core content of services is information-based.
  - Can be “inventoried”

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Four broad categories of services

Information Processing

- Information is the most intangible form of service output.
- May be transformed into enduring forms of service output.
- Line between information processing and mental stimulus processing may be blurred.

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1.7 Be familiar with the characteristics of services and the distinctive marketing challenges they pose.

Characteristics of services and marketing challenges

- Marketing management tasks in the service sector differ from the manufacturing sector:
  - Most service products cannot be inventoried
  - Intangible elements usually dominate value creation
  - Services are often difficult to visualize and understand
  - Customers may be involved in co-production
  - People may be part of the service experience
  - Operational inputs and outputs tend to vary more widely
  - The time factor often assumes great importance
  - Distribution may take place through nonphysical channels

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Characteristics of services and marketing challenges

- Differences, Implications, and Marketing-Related Tasks (1)

Difference	Implications	Marketing-related Topics
Most service products cannot be inventoried	Customers may be turned away	Use pricing, promotion, reservations to smooth demand; work with ops to manage capacity
Intangible elements usually dominate value creation	Harder to evaluate service & distinguish from competitors	Emphasize physical clues, employ metaphors and vivid images in advertising
Services are often difficult to visualize & understand	Greater risk & uncertainty perceived	Educate customers on making good choices; offer guarantees
Customers may be involved in co-production	Interaction between customer & provider; but poor task execution could affect satisfaction	Develop user-friendly equipment, facilities & systems; train customers, provide good support

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Characteristics of services and marketing challenges

- Differences, Implications, and Marketing-Related Tasks (2)

Difference	Implications	Marketing-related Topics
People may be part of service experience	Behavior of service personnel & customers can affect satisfaction	Recruit, train employees to reinforce service concept
Operational inputs and outputs tend to vary more widely	Hard to maintain quality, consistency, reliability	Shape customer behavior
Time factor often assumes great importance	Difficult to shield customers from failures	Redesign for simplicity and failure proofing
Distribution may take place through nonphysical channels	Time is money; customers want service at convenient times	Institute good service recovery procedures
	Electronic channels or voice telecommunications	Find ways to compete on speed of delivery; offer extended hours
		Create user-friendly, secure websites and free access by telephone

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Introduction to Services Marketing

1.8

Understand the components of the traditional marketing mix applied to services.

The traditional marketing mix

The 7 Ps of services marketing

- Product elements (Chapter 4)
- Place and time (Chapter 5)
- Price and other user outlays (Chapter 6)
- Promotion and education (Chapter 7)
- Process (Chapter 8)
- Physical environment (Chapter 10)
- People (Chapter 11)

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The traditional marketing mix

Applying the 4 Ps of Marketing to Services (1)

- Product elements
  - Service products are at the heart of services marketing strategy
  - Marketing mix begins with creating service concept that offers value
  - Service product consists of core and supplementary elements
    - Core products meet primary needs
    - Supplementary elements are value-added enhancements

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The traditional marketing mix

Applying the 4 Ps of Marketing to Services (2a)

- Place and time
  - Service distribution can take place through physical and non-physical channels
  - Some firms can use electronic channels to deliver all (or at least some) of their service elements
  - Information-based core services can be delivered almost instantaneously electronically

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The traditional marketing mix

Applying the 4 Ps of Marketing to Services (2b)

- Place and time
  - Delivery Decisions: Where, When, How
  - Time is of great importance as customers are physically present
  - Convenience of place and time become important determinants of effective service delivery

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The traditional marketing mix

Applying the 4 Ps of Marketing to Services (3a)

- Price and other user outlays
  - From the firm's perspective, pricing generates income and creates profits
  - From the customer's perspective, pricing is key part of costs to obtained wanted benefits
  - Marketers must recognize that customer costs involve more than price paid to seller

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The traditional marketing mix

Applying the 4 Ps of Marketing to Services (3b)

- Price and other user outlays
  - Identify and minimize non-monetary costs incurred by users:
    - Additional monetary costs associated with service usage (e.g., travel to service location, parking, phone, babysitting, etc.)
    - Time expenditures, especially waiting
    - Unwanted mental and physical effort
    - Negative sensory experiences
- Revenue management is an important part of pricing.

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Introduction to Services Marketing

1.9

Describe the components of extended marketing mix for managing the customer interface.

The traditional marketing mix

Extended Mix for Managing the Customer Interface (1)

- Process
  - *How* a firm does things may be as important as what it does
  - Customers often actively involved in processes, especially when acting as co-producers of service
  - Operational inputs and outputs vary more widely
  - Customers are often involved in co-production
  - Demand and capacity need to be balanced

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The traditional marketing mix

Extended Mix for Managing the Customer Interface (2a)

- Physical environment
  - Design servicescape and provide tangible evidence of service performances
  - Manage physical cues carefully—can have profound impact on customer impressions

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The traditional marketing mix

Extended Mix for Managing the Customer Interface (2b)

- Physical environment
  - Identify and minimize non-monetary costs incurred by users:
    - Additional monetary costs associated with service usage (e.g., travel to service location, parking, phone, babysitting, etc.)
    - Time expenditures, especially waiting
    - Unwanted mental and physical effort
    - Negative sensory experiences
- Revenue management is an important part of pricing

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The traditional marketing mix

Extended Mix for Managing the Customer Interface (2c)

- Physical environment
  - Create and maintain physical appearances:
    - Buildings/landscaping
    - Interior design/furnishings
    - Vehicles/equipment
    - Staff grooming/clothing
    - Sounds and smells
    - Other tangibles

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The traditional marketing mix

Extended Mix for Managing the Customer Interface (3)

- People
  - Interactions between customers and contact personnel strongly influence customer perceptions of service quality
  - Well-managed firms devote special care to selecting, training and motivating service employees
  - Other customers can also affect one's satisfaction with a service

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1.10

Appreciate that marketing, operations, and human resource management functions need to be closely integrated in service business.

Integration with Other Management Functions

- Marketers must work closely with managers in other central functions
- Operations:
  - involved in the design of products and processes
  - implementation of programs for improving productivity and quality

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Integration with Other Management Functions

- HR:
  - o responsible for quality front-line service providers
- IT:
  - o provides real-time information at every customer touch-point to create value with updated customer data

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1.11

Understand the implications of the Service–Profit Chain for Service Management

The Service–Profit Chain

- The service–profit chain demonstrates the links in a managerial process that are essential for success in service businesses.

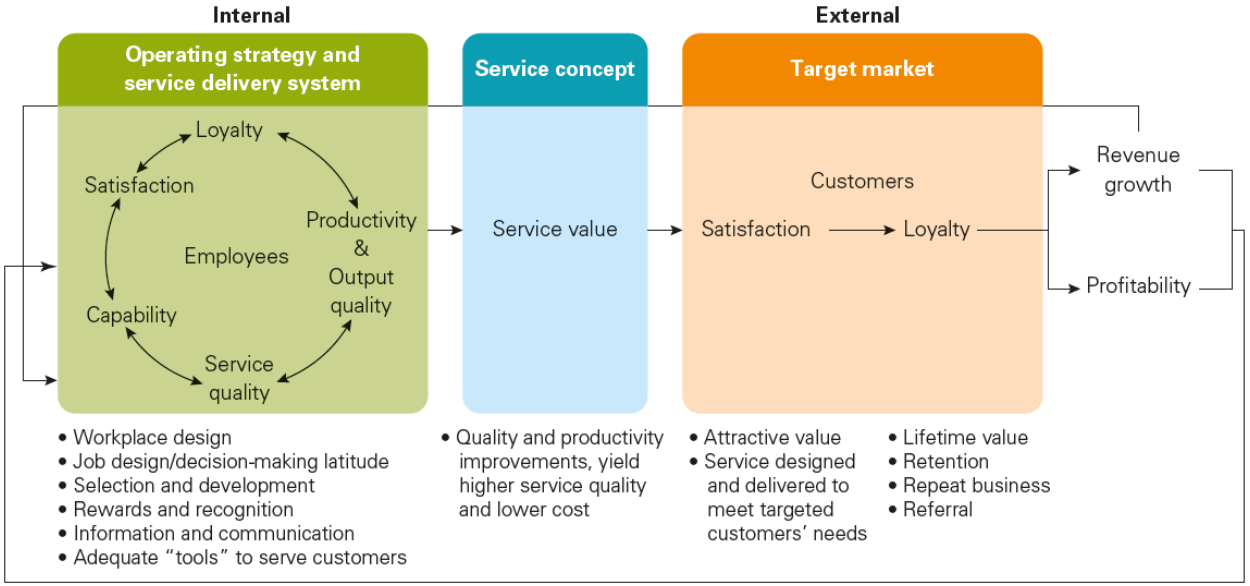

Figure 1.27 The Service–Profit Chain.

SOURCE

From J. L. Heskett, T. O. Jones, G. W. Loveman, W. E. Sasser Jr., and L. A. Schlesinger, "Putting the Service-Profit Chain to Work," Harvard Business School, 1994, p.166.

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The traditional marketing mix

- Links in the Service Profit Chain
  - Customer loyalty drives profitability and growth.
  - Customer satisfaction drives customer loyalty.
  - Value drives customer satisfaction.
  - Quality and productivity drive value.
  - Employee loyalty drives service quality and productivity.
  - Employee satisfaction drives employee loyalty.
  - Internal quality as delivered by operations and IT drives employee satisfaction.
  - Top management leadership underlies the chain's success.

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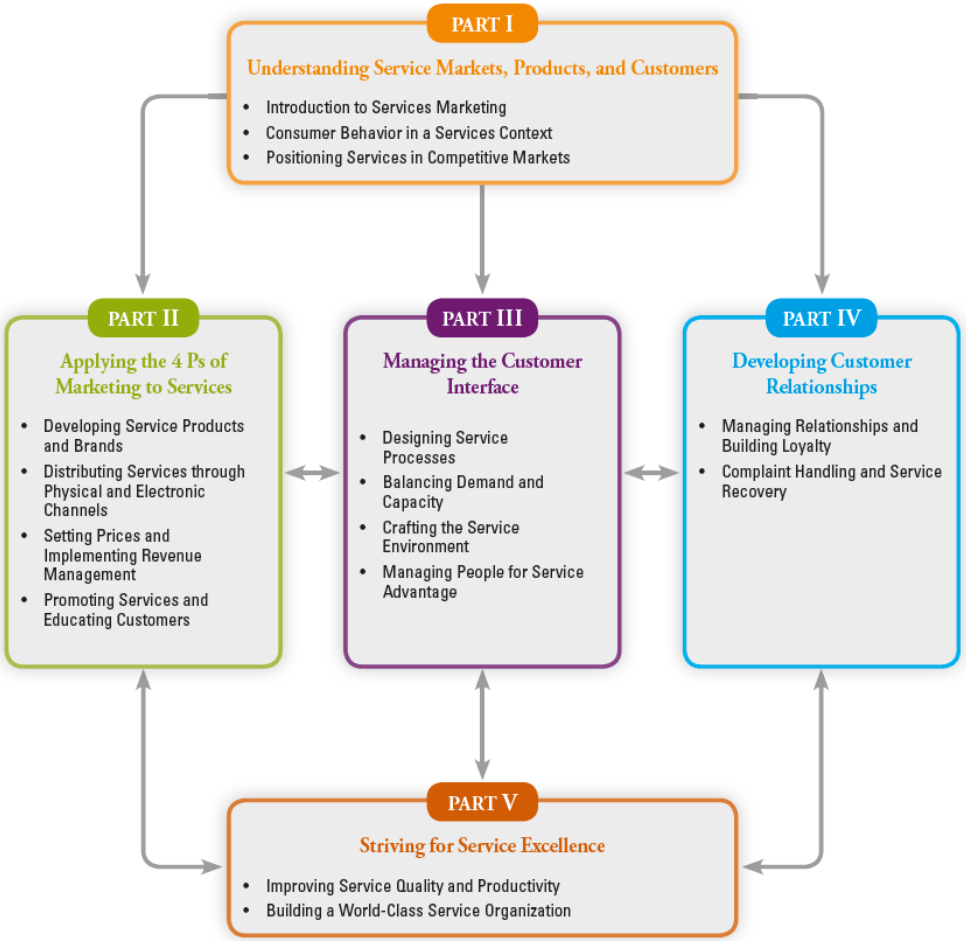
Introduction to Services Marketing

1.12

Be familiar with the characteristics of services and the distinctive marketing challenges they pose.

Service marketing strategies

- Integrated model of services marketing.


PART I
Understanding Service Markets, Products, and Customers
Introduction to Services Marketing
Consumer Behavior in a Services Context
Positioning Services in Competitive Markets
PART II
Applying the 4 Ps of Marketing to Services
Developing Service Products and Brands
Distributing Services through Physical and Electronic Channels
Setting Prices and Implementing Revenue Management
Promoting Services and Educating Customers
PART III
Managing the Customer Interface
Designing Service Processes
Balancing Demand and Capacity
Crafting the Service Environment
Managing People for Service Advantage
PART IV
Developing Customer Relationships
Managing Relationships and Building Loyalty
Complaint Handling and Service Recovery
PART V
Striving for Service Excellence
Improving Service Quality and Productivity
Building a World-Class Service Organization

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